

**WASHINGTON STATE SYSTEM OF  
ELIGIBLE TOLL FACILITIES  
Olympia, Washington**

**FINANCIAL STATEMENTS  
June 30, 2013**



## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3
<b>FINANCIAL STATEMENTS</b> .....	
Balance Sheet/Statement of Net Position - June 30, 2013 .....	11
Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities - June 30, 2013 .....	12
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	13

## INDEPENDENT AUDITORS' REPORT

Washington State System of Eligible Toll Facilities  
Olympia, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Reporting Entity***

As discussed in Note 1, the financial statements present only the Washington State System of Eligible Toll Facilities and do not purport to, and do not, present fairly the financial position of the Department of Transportation of the State of Washington or the State of Washington as of June 30, 2013 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
November 22, 2013

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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As managers of the System of Eligible Toll Facilities, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. We present this information in conjunction with the financial statements (which follow). Governmental Accounting Standards Board Statement No. 34 requires that two years of information be presented in the management's discussion and analysis. As tolling operations first commenced on this toll facility approximately half way through fiscal year 2012, it is important to keep this in mind when reviewing the data presented.

The responsibility to operate toll facilities in Washington State includes being accountable to numerous levels of oversight and review. WSDOT is committed to financial transparency and accountability in fulfilling our tolling fiduciary responsibilities. Oversight of the System of Eligible Toll Facilities includes:

- The Washington State Legislature
- The Washington State Transportation Commission
- Washington State Auditor's Office – Independent Audits:
  - Washington State Comprehensive Annual Financial Report (CAFR)
  - Washington State Wide Single Audit (SWSA)
- Tolling Customer Service Center (CSC) Service Organization's Contracted Certified Public Accounting Firm – WSDOT's contracted Service Organization is obligated to annually report on controls relevant to WSDOT's internal controls over financial reporting, in accordance with Statement on Standards for Attestation Engagement (SSAE) 16 Service Organization Control 1 Report.
- WSDOT Contracted Certified Public Accounting Firm – System of Eligible Toll Facilities Annual Financial Statement Audit:
  - Independent Auditor's Report
  - Management Letter and Comments
- WSDOT Internal Audit

The System of Eligible Toll Facilities or "System" is made up of toll facilities that the Washington State Legislature has specifically identified and designated as an eligible toll facility, and for which bonds have been issued under State Finance Committee Master Resolution Number 1117 and Master Resolution Number 1125.

At this time, the System includes that portion of the SR 520 Corridor Program, which has been financed by bonds issued under Master Resolution Number 1117 and Master Resolution Number 1125, as represented in *the State Route Number 520 Corridor Account* and the *Toll Facility Bond Retirement Account*. The financial statements of the System are intended to present information of only that portion of the government-type activities of the State of Washington that are attributable to the transactions of the System.

For financial reporting purposes, the System is a part of the primary government of the State of Washington and is included in the basic financial statements of the State.

It is important to note that the System represents only a portion of those accounts used to fund the SR 520 Corridor Program, which is defined in the Toll Facilities Act, Laws of 2009, Chapter 472, and restated in Master Resolution No. 1117 and No. 1125 as the portion of State Route 520 between the junctions of Interstate 5 and State Route 202. The entire SR 520 Corridor Program is financed through various accounts, including the SR 520 Corridor Account, the Transportation Partnership Account, Transportation 2003 Account (Nickel Account), and Motor Vehicle Account.

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

The Washington State Department of Transportation (WSDOT) began pre-construction tolling of the existing SR 520 Bridge across Lake Washington on December 29, 2011. All electronic tolling and time of day variable tolling is being used to manage congestion on the corridor. Toll revenues are used to finance a portion of the funds required to replace the floating bridge across the lake, plus make other corridor improvements between the bridge and I-405 to the east.



The SR 520 Corridor stretches nearly 13 miles between I-5 in Seattle to the west and SR 202 to the east, crossing I-405 at about the halfway point, and serving various Eastside communities, including Bellevue, Kirkland and Redmond.

The SR 520 Corridor improvements authorized by the State Legislature represent \$2.72 billion of investments. The improvements include:

- Building a new floating bridge, plus east approach and a portion of the west approach that provides six lanes from Medina to Montlake;
- Widening the corridor to six lanes (two general-purpose and one HOV lane in each direction) between the west landing of the new floating bridge and I-405 in the east;
- Adding a pedestrian/bike lane in the widened corridor; and
- Making a series of other investments for safety, reliability, and transit and HOV operations.

For financial planning purposes, this \$2.72 billion package of investments is referred to as the “SR 520 Floating Bridge and Eastside plus West Approach Bridge Project”. The project represents the funded portion of the larger “SR 520 Corridor Program” that will ultimately widen and/or improve the entire SR 520 corridor between I-5 and SR 202. It has been Identified by the Legislature in the Toll Facilities Act for \$4.65 billion, but currently estimated to cost \$4.13 billion.

For more information about the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project or the entire SR 520 Corridor Program, including the program's purpose and need, costs and benefits,

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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and a series of maps and photos, the reader is referred to the SR 520 Bridge Replacement and HOV Program website at: <http://www.wsdot.wa.gov/Projects/SR520Bridge/>.

## **Financial Highlights**

Tolling operations commenced on the SR 520 Floating Bridge on December 29, 2011. It is important to note that tolling began approximately 6 months into fiscal year 2012, therefore fiscal year 2013 represents the first full year of tolling on the State Route 520 Bridge.

- ❖ Total governmental fund revenues for the SR 520 Corridor Account for Fiscal Year 2012 were \$30,253,675. This included toll revenues in the amount of \$26,103,958, which represents approximately six months of toll operations. Total governmental fund revenues for the SR 520 Corridor Account for Fiscal Year 2013 were \$76,983,799. This includes toll revenues in the amount of \$55,441,664. Government-wide revenues for fiscal year 2013 total \$77,871,093, an increase over governmental funds revenues of \$870,355 which is due to the recognition of revenue associated with the long-term portion of the reprocessing fee revenue.
- ❖ Total expenditures for the SR 520 Corridor Account for Fiscal Year 2012 were \$442,651,973. Of this amount, \$432,372,569 was Capital Outlays. Total expenditures for the State Route 520 Corridor Account for Fiscal Year 2013 were \$414,058,020. Of this amount, \$403,135,656 was Capital Outlays. This is a decrease of \$28,593,953 in total expenditures during Fiscal Year 2013, predominantly due to a small reduction in Capital Outlay expenditures costs as compared to the prior year.
- ❖ Total cost for Construction-In-Progress in the SR 520 Corridor Account for Fiscal Year 2012 was \$472,518,171. Total cost for Construction-In-Progress in the SR 520 Corridor Account for Fiscal Year 2013 was \$466,666,411. This increases Construction-In-Progress during Fiscal Year 2013 to an ending balance of \$1,097,532,501.
- ❖ The System's governmental funds reported a combined ending fund balance of \$566,900,829 for Fiscal Year 2012 and a combining ending fund balance of \$185,478,516 for Fiscal year 2013.

## **Overview of the Financial Statements**

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and in accordance with methods prescribed by the Washington State Office of Financial Management. The fiscal year 2013 financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

As the System represents a single governmental program, the fund financial statements (Governmental Funds Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances) and the government-wide statements (Statement of Net Position and the Statement of Activities) are presented in a combined format in accordance with paragraph 136 of GASB Statement No. 34. These statements focus on both the System as a whole (government-wide) and on the major individual funds. The dual perspectives approach supports accountability and transparency. It also allows the reader to address relevant questions, and broaden a basis for comparison (year-to-year or government-to-government).

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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- ❖ **Governmental Funds Balance Sheet / Statement of Net Position** - The first three columns of the combining statement present the Governmental Funds Balance Sheet, while the last column presents the Statement of Net Position. The fourth column, between the two presentations, provides information which reconciles the noted differences. This combined statement can be found on page 11 of this report.
- ❖ **Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances / Statement of Activities** - The first three columns of the combining statement presents the Governmental Funds Revenues, Expenditures, and Changes in Fund Balance, while the last column presents the Statement of Activities. The fourth column, between the two presentations, provides information which reconciles the noted differences. This combined statement can be found on page 12 of this report.

**Government-Wide Financial Statements** - The government-wide financial statements (Statement of Net Position and the Statement of Activities) are designed to provide readers with a broad overview of the System's finances, using full accrual accounting in a manner similar to a private sector business.

- ❖ **Statement of Net Position.** The Statement of Net Position presents information on all of the System assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.
- ❖ **Statement of Activities.** The Statement of Activities provides information regarding the nature and source of the changes in financial position. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., deferred sales taxes and earned but unused vacation leave).

**Government Fund Financial Statements**- Funds are used to maintain control over resources that are segregated for specific activities or objectives. The System uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike the government-wide financial statements, governmental fund financial statements (Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance) focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Both funds within the System are categorized as Governmental Funds, and use the modified accrual basis of accounting.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the combined government-wide and fund financial statements previously described above. Those notes to the financial statements can be found on pages 13-30 of this report.

## **Financial Analysis**

As mentioned previously, fiscal year 2012 was the first year of toll operations on the System. Tolling commenced on the SR 520 Bridge mid-way through fiscal year 2012. Therefore, the data presented in the tables below is a comparison of a half year of tolling operations (fiscal year 2012) to the first full year of tolling operations (fiscal year 2013).



# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

The condensed table below summarizes the System's Statement of Net Position:

<b>Condensed Statement of Net Position</b>	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2013</b>	<b>% Change</b>
Current and Other Assets	\$ 645,061,381	\$ 273,249,850	-57.6%
Capital Assets, Net	<u>656,380,061</u>	<u>\$ 1,127,493,736</u>	71.8%
Total Assets	<u>\$ 1,301,441,442</u>	<u>\$ 1,400,743,586</u>	7.6%
Current and Other Liabilities	\$ 81,122,197	\$ 96,540,748	19.0%
Noncurrent Liabilities	<u>1,202,723,730</u>	<u>\$ 1,218,017,915</u>	1.3%
Total Liabilities	<u>\$ 1,283,845,927</u>	<u>\$ 1,314,558,663</u>	2.4%
Net Investment in Capital Assets	\$ 683,028	\$ 57,434,599	8308.8%
Restricted Net Assets	18,554,420	\$ 28,750,323	55.0%
Unrestricted Deficit	<u>(1,641,933)</u>	<u>\$ -</u>	-100.0%
Total Net position	<u>\$ 17,595,515</u>	<u>\$ 86,184,922</u>	389.8%

Net position is one way to measure the financial health of an organization, and may serve, over time, as a useful indicator of financial position. As we complete the first full year of tolling on the System, the Statement of Net Position displays a total net position of \$86,184,922 as of June 30, 2013. Net position increased by \$68,589,407 in 2013 as compared to 2012.

The condensed table below summarizes the System's Statement of Activities:

<b>Condensed Statement of Activities</b>	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2013</b>	<b>% Change</b>
Revenue:			
Tolling Revenue	\$ 26,103,958	\$ 55,441,664	112.4%
Other Revenue	<u>4,998,762</u>	<u>22,429,429</u>	348.7%
Total Revenue	<u>\$ 31,102,720</u>	<u>\$ 77,871,093</u>	150.4%
Expenses:			
Personnel Service Contracts	\$ 138,350	\$ 713,463	415.7%
Goods and Services	12,059,600	7,537,542	-37.5%
Other Expenditures	<u>533,446</u>	<u>972,681</u>	82.3%
Total Expenses	<u>\$ 12,731,396</u>	<u>\$ 9,223,686</u>	-27.6%
Other Financing Sources/Uses	<u>\$ -</u>	<u>\$ (58,000)</u>	100.0%
Change in Net Position	\$ 18,371,324	\$ 68,589,407	273.4%
Net Position, Beginning of the year	<u>(775,809)</u>	<u>17,595,515</u>	2368.0%
<b>Net Position, end of the year</b>	<u>\$ 17,595,515</u>	<u>\$ 86,184,922</u>	389.8%

Total toll revenue, as shown on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance, for fiscal year 2013 (the first full year of tolling on the 520 Bridge) is \$55,441,664. This represents an increase of \$29,337,706 over Fiscal Year 2012 in which \$26,103,958 was received in toll revenue for approximately half a year - from the inception of tolling on this toll facility (December 29, 2011) through June 30, 2012.

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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Total assets, as shown on the Governmental Funds Balance Sheet, exceeded liabilities and deferred inflows of resources by \$185,478,516 at June 30, 2013, as reflected in Total Fund Balances. This fund balance is restricted to any proper purpose of the System in accordance with Master Resolution 1117 (referred to as "sub-accounts" within the Bond Covenants), and has been established during this fiscal year as a result of the issuance of bonds for the System.

- Restricted for Unspent GARVEE Bond Proceeds - \$147,913,103
- Restricted for Operating & Maintenance Reserve - \$6,410,157
- Restricted for Repair & Replacement Reserve - \$1,875,000
- Restricted for Transportation - \$27,094,561
- Restricted for Third Tier Debt service - \$2,185,695

## **Capital Assets**

Capital Assets of the System are comprised of Land, Construction-in-Progress, and a Software-Intangible Asset. The total Construction-in-Progress balance of \$1,097,532,501 is related to activities of 520 Corridor Program, which is considered an infrastructure asset.

The ETCC (Electronic Transaction Consultants Corporation) Electronic Tolling System includes an IT software intangible asset that is owned by WSDOT tolling facilities. The capitalized portion of ETCCs Electronic Tolling System that was purchased and developed by the SR 520 Corridor Account is included, net of amortization, in the asset balance on the Statement of Net Position.

## **Long-Term Debt – Bond Information**

Under Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011 (codified in RCW 47.56.805-.876) (the "Toll Facilities Act"), the Legislature has designated the SR 520 Corridor as an "Eligible Toll Facility" and has authorized the imposition of tolls on the floating bridge portion of the SR 520 Corridor. The Toll Facilities Act provides that "toll revenue" includes all toll receipts, interest income derived from the investment of toll receipts, and any gifts, grants, and other funds received for the benefit of transportation facilities in the state, including eligible toll facilities. The Bond Act provides, for the purposes of any pledge of toll revenue to the payment of particular bonds issued under the Bond Act, that "toll revenue" means and includes only such toll revenue or portion thereof that is pledged to the payment of those bonds in the resolution authorizing the issuance of those bonds.

The Bond Act authorized the State Finance Committee to issue, at the request of WSDOT, \$1.950 billion of general obligation bonds of the state, to which the state's full faith and credit are pledged and are first payable from toll revenue and motor vehicle fuel taxes ("Triple Pledge Bonds"), to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor Program. The Bond Act also authorized the Committee to issue the authorized bonds as toll revenue bonds, which are payable solely from and secured solely by toll revenue rather than as general obligation bonds to which the state's full faith and credit are pledged.

In October 2011 the State of Washington issued \$518,775,000 Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program - Toll Revenue). These bonds, referred to as Series 2012C Bonds, are general obligations of the State of Washington to which the state has pledged its full faith, credit and taxing power. The bonds are "Triple Pledge Bonds" first payable from Toll Revenue and Motor

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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Vehicle Fuel Taxes. This series was issued to provide funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, to fund capitalized interest and to pay bond issuance costs. The Series 2012C Bonds received a credit rating of Aa1 from Moody's in October 2011 and AA+ from Fitch, and AA+ from Standard and Poor's in September 2011.

In June 2012, the State of Washington issued \$500,400,000 Federal Highway Grant Anticipation Revenue (GARVEE) Bonds. These bonds, referred to as Series 2012F Bonds, finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to pay bond issuance costs. They were issued as limited obligations of the state payable from and secured solely by the Federal-Aid Highway funds received by the state. The Series 2012F Bonds received a credit rating of Aa2 from Moody's and AA from Standard and Poor's in April 2012.

In October 2012, the State of Washington issued a Transportation Infrastructure and Innovation Bond, which represented a draw down loan from the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) program in the amount of \$300 million to be reimbursed from toll revenue. WSDOT does not expect to begin to draw on this loan until the summer of 2014. The Bonds are "toll revenue" bonds under the Bond Act that are payable solely from toll receipts.

In September 2013, the State of Washington issued \$285,915,000 in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds, referred to as Series 2014C Bonds. These bonds are being issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to pay bond issuance costs. The Series 2014C Bonds are limited obligations of the state payable from and secured solely by the Federal-Aid Highway Funds received by the state. The Series 2014C Bonds received a credit rating of Aa3 from Moody's and AA from Standard and Poor's in September 2013.

In addition to the bonds mentioned above, the state may in the future issue bonds payable solely from toll receipts from the SR 520 Corridor.

## **Economic Factors That Will Affect the Future**

WSDOT and ETCC entered into a Settlement Agreement to settle certain claims associated with a delay in the start of establishing and operating a Statewide Tolling System for Washington State, and the commencement of tolling of State Route 520. These claims impacted multiple WSDOT toll facilities, including the SR 520 Bridge. The agreement modifies the original December 22, 2009 contract between the two parties along with its subsequent changes orders. The Settlement Agreement was executed June 30, 2012. The total settlement value attributable for all toll facilities was:

- \$2.4 million in operational payment reductions (\$400,000 per year x 6 years)
- \$4.0 million royalty free, non-exclusive, perpetual, irrevocable and non-transferable license to use the ETCC RITE system source code and related software and background documents necessary to operate the WSDOT Statewide Tolling Customer Service Center. The value of this intellectual property was established by an independent consultant.

# Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2013

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As total amounts included in the settlement related to various claims, the above amounts are attributable to the entire tolling program. Provided below are the amounts of the total settlement that are attributable to the System:

- \$849,039 – operational payment reductions
- \$2,548,000 – RITE System License

Pontoon Construction Repairs: The Pontoon Construction project is in the third of six construction cycles, and the interim schedule milestones will need to be adjusted to reflect repair work being performed on the pontoons. WSDOT is negotiating an equitable adjustment with the design-builder that will change the project cost and schedule. WSDOT expects to resolve this issue by December 2013.

Eastside Transit and HOV Potential Scope and Schedule Impacts: WSDOT continues to work with its design-builder to resolve a geo-technical dispute. The parties' efforts to resolve this dispute through the Project's Dispute Review Board has not resulted in resolution. The next step in the dispute is likely a filing of a claim by the Contractor. If filed, WSDOT will assess the claim and either negotiate a settlement, make a determination of equitable adjustment, or reject the claim. The design-build agreement provides for an opportunity for mutually agreed non-binding arbitration, or ultimately the issue may be elevated to Superior Court. The resolution of this issue may affect the project cost. The dispute is impacting the project schedule and the Contractor has indicated they expect a 2014 completion versus the December 2013 contractual substantial completion. It is uncertain when the issue will be resolved at this time.

Floating Bridge and Landings Scope and Schedule Impacts: Following negotiation of the scope and schedule adjustment with the Pontoon design-builder, WSDOT will negotiate an equitable adjustment with the Floating Bridge and Landings design-builder. This adjustment will address delays in the delivery of pontoons from the Pontoon Construction Project and will affect the cost and schedule of the Floating Bridge and Landings project. WSDOT expects to resolve this issue by December 2013.

Tolling Subsidiary Accounting System: After the close of the fiscal year, WSDOT determined, through independent audits, that the tolling subsidiary accounting system for WSDOT, which is managed by a contracted service organization, contained weaknesses in internal control requiring revision to existing procedures and protocols. The results of the audit findings provide concern to WSDOT, and we will take appropriate actions to remediate the issues. WSDOT will aggressively pursue actions by our contracted service provider to remediate deficiencies identified through these independent audits, as we are committed to the highest standard of transactional and financial accountability for the citizens of Washington State.

## **Contacting the Organization**

This financial report is designed to provide a general overview of the System's finances for bond holders, customers and other interested parties. Questions concerning any of the information provided in this report should be addressed to Bob Covington, Director of Accounting and Financial Services, Washington State Department of Transportation, 310 Maple Park Ave. SE, Olympia, Washington, 98501.

# Washington State System of Eligible Toll Facilities

## Balance Sheet/Statement of Net Position

### June 30, 2013

<b>GOVERNMENT FUND FINANCIAL STATEMENTS</b>					
	<b>SR 520 Corridor Account</b>	<b>Toll Facility Bond Retirement Account</b>	<b>Total</b>	<b>Adjustments (Note 3)</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 255,357,370	\$ 2,185,523	\$ 257,542,893	\$ -	\$ 257,542,893
Cash Held with Escrow Agents	11,325,125	-	11,325,125	-	11,325,125
Accounts Receivable (Net)	2,142,433	-	2,142,433	-	2,142,433
Due from Other Funds/Agencies	1,390,188	172	1,390,360	-	1,390,360
Long-Term Due from Toll Vendor	849,039	-	849,039	-	849,039
Capital assets, not being depreciated (Note 6)	-	-	-	1,125,432,920	1,125,432,920
Intangible assets, being amortized (Note 6)	-	-	-	2,060,816	2,060,816
<b>Total Assets</b>	<b>\$ 271,064,155</b>	<b>\$ 2,185,695</b>	<b>\$ 273,249,850</b>	<b>1,127,493,736</b>	<b>1,400,743,586</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 65,761,480	\$ -	\$ 65,761,480	-	65,761,480
Retainage Payable	12,366,067	-	12,366,067	-	12,366,067
Due to Other Funds/Agencies	6,785,295	-	6,785,295	-	6,785,295
Due to Other Governments	10,297	-	10,297	-	10,297
Unearned Revenue	1,128,801	-	1,128,801	-	1,128,801
Debt Service Interest Payable	-	-	-	10,488,808	10,488,808
Long-term Liabilities (Note 7)	-	-	-	-	-
Compensated Absences Payable	-	-	-	45,674	45,674
Sales Tax Payable	-	-	-	67,160,967	67,160,967
Premiums on Bonds Payable	-	-	-	131,636,274	131,636,274
Bond Principal Due After One Year	-	-	-	1,019,175,000	1,019,175,000
<b>Total Liabilities</b>	<b>\$ 86,051,940</b>	<b>\$ -</b>	<b>\$ 86,051,940</b>	<b>1,228,506,723</b>	<b>1,314,558,663</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue-Toll Vendor	849,039	-	849,039	(849,039)	-
Unavailable Revenue-Reprocessing Fee	870,355	-	870,355	(870,355)	-
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,719,394</b>	<b>\$ -</b>	<b>\$ 1,719,394</b>	<b>\$ (1,719,394)</b>	<b>\$ -</b>
<b>FUND BALANCES/NET POSITION</b>					
Fund Balances:					
Restricted for Unspent GARVEE Bond Proceeds	147,913,103	-	147,913,103	(147,913,103)	-
Restricted for Operating & Maintenance Reserve	6,410,157	-	6,410,157	(6,410,157)	-
Restricted for Repair & Replacement	1,875,000	-	1,875,000	(1,875,000)	-
Restricted for Transportation	27,094,561	-	27,094,561	(27,094,561)	-
Restricted for Third Tier Debt Service	-	2,185,695	2,185,695	(2,185,695)	-
Restricted for Debt Service	-	-	-	-	-
<b>Total Fund Balances</b>	<b>183,292,821</b>	<b>2,185,695</b>	<b>185,478,516</b>	<b>(185,478,516)</b>	<b>-</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 271,064,155</b>	<b>\$ 2,185,695</b>	<b>\$ 273,249,850</b>		
<b>Net Position:</b>					
Net Investment in Capital Assets				57,434,599	57,434,599
Restricted for Operating & Maintenance Reserve				6,410,157	6,410,157
Restricted for Repair & Replacement Reserve				1,875,000	1,875,000
Restricted for Transportation				18,279,472	18,279,472
Restricted for Third Tier Debt Service				2,185,695	2,185,695
<b>Total Net Position</b>				<b>\$ 86,184,922</b>	<b>\$ 86,184,922</b>

The accompanying notes are an integral part of the financial statements.

Washington State System of Eligible Toll Facilities  
Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities  
Year Ended June 30, 2013

	<u>GOVERNMENT FUND FINANCIAL STATEMENTS</u>				
	<u>SR 520 Corridor Account</u>	<u>Toll Facility Bond Retirement Account</u>	<u>Total</u>	<u>Adjustments (Note 4)</u>	<u>Statement of Activities</u>
<b>REVENUE</b>					
Tolling Revenue	\$ 55,441,664	\$ -	\$ 55,441,664	\$ -	\$ 55,441,664
Debt Service Reimbursement - - Federal Highway Administration	18,282,056	-	18,282,056	-	18,282,056
Transponder Sales	466,577	-	466,577	-	466,577
Toll Vendor Contractual Damages	137,729	-	137,729	-	137,729
Toll Bill Reprocessing Fee Revenue	1,318,176	-	1,318,176	870,355	2,188,531
Interest Income	1,219,394	16,939	1,236,333	-	1,236,333
Miscellaneous Revenue	118,203	-	118,203	-	118,203
Total Revenues	<u>76,983,799</u>	<u>16,939</u>	<u>77,000,738</u>	<u>870,355</u>	<u>77,871,093</u>
<b>EXPENDITURES</b>					
Current:					
Personal Service Contracts	713,463	-	713,463	-	713,463
Goods and Services	8,818,989	-	8,818,989	(1,698,678)	7,120,311
Salaries and Benefits	972,681	-	972,681	-	972,681
Cost of Financing	417,231	-	417,231	-	417,231
Capital Outlays	403,135,656	-	403,135,656	(403,135,656)	-
Debt Service - Interest	-	44,307,030	44,307,030	(44,307,030)	-
Total Expenditures	<u>414,058,020</u>	<u>44,307,030</u>	<u>458,365,050</u>	<u>(449,141,364)</u>	<u>9,223,686</u>
Excess (Deficiency) of Revenues over Expenditures	(337,074,221)	(44,290,092)	(381,364,313)	450,011,719	68,647,407
<b>Other Financing Sources/Uses:</b>					
Transfers-External Activities	(58,000)	-	(58,000)	-	(58,000)
Transfers-Internal Activities	(44,307,030)	44,307,030	-	-	-
Excess (Deficiency) of Revenues and Transfers In over Expenditures and Transfers Out	<u>(44,365,030)</u>	<u>44,307,030</u>	<u>(58,000)</u>	<u>-</u>	<u>(58,000)</u>
Change in Fund Balances/Net Position	(381,439,251)	16,938	(381,422,313)	450,011,719	68,589,407
Fund Balances/Net Position:					
Beginning of The Year	564,732,072	2,168,757	566,900,829	(549,305,314)	17,595,515
End of The Year	<u>\$ 183,292,821</u>	<u>\$ 2,185,695</u>	<u>\$ 185,478,516</u>	<u>\$ (99,293,595)</u>	<u>\$ 86,184,922</u>

The accompanying notes are an integral part of the financial statements.

# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### 1. Reporting Entity

The System of Eligible Toll Facilities or “System” is part of the Washington State Department of Transportation (WSDOT). WSDOT is a department established under and governed by the laws of the State of Washington. WSDOT has the primary responsibility for the System and the Office of State Treasurer carries out the administration of debt service activities. For financial reporting purposes, the System is a part of the primary government of the State of Washington and is included in the state’s Comprehensive Annual Financial Report (CAFR). These financial statements are intended to present financial information of only the portion of government-type activities that are attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial information of WSDOT or the State of Washington. The System is not a legally separate entity and no component units were identified.

The System is made up of toll facilities that the Washington State Legislature has specifically identified and designated as eligible toll facilities and for which bonds are issued under State Finance Committee Master Resolution Number 1117 or Master Resolution Number 1125.

At this time, the System includes that portion of the SR 520 Corridor Program, which has been financed by bonds issued under Master Resolution Number 1117 or Master Resolution Number 1125, as represented in the *State Route Number 520 Corridor Account* and the *Toll Facility Bond Retirement Account*. The financial statements of the System are intended to present information of only that portion of the government-type activities of the State of Washington that are attributable to the transactions of the System.

It is important to note that the System represents only a portion of those accounts used to fund the State Route 520 Corridor Program, which is defined in the Toll Facilities Act (RCW 47.56.870) and restated in Master Bond Resolution No. 1117 and No. 1125 as the portion of State Route 520 between the junctions of Interstate 5 and State Route 202. The entire SR 520 Corridor Program is financed through various accounts, including but not limited to the SR 520 Corridor Account, the Transportation 2003 Account (Nickel Account), Transportation Partnership Account and Motor Vehicle Account.

#### 2. Summary of Significant Accounting Policies

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statement information (provided on the financial statements in the Statement of Activities column and the Statement of Net Position column) is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The activities of the System, as a whole, are reported on the government-wide financial statements.

# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### 2. Summary of Significant Accounting Policies (Continued)

##### **Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The governmental fund financial statement information provided in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The system's toll revenues are determined to be available if received within 12 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The System adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* as of July 1, 2012. This statement is the codification of accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements. This statement will improve financial reporting by contributing to efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will result in more consistent application of applicable guidance in financial statements of state and local governments.

The System adopted previously GASB Statement No. 63, *Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012 and GASB Statement No. 65 *Items Previously Recognized as Assets and Liabilities* as of July 1, 2011. GASB Statement No. 63 impacted financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. GASB Statement No. 65 impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The standard eliminates the provision for capitalizing and amortizing debt issuance costs. Debt issuance costs are considered expense at the time the debt is issued.

##### **Fund Structure**

The System accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The System includes the following governmental funds, which are considered major funds:



# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### **2. Summary of Significant Accounting Policies (Continued)**

State Route Number 520 Corridor Account – Established August 2009, pursuant to RCW 47.56.875. The State Route Number 520 Corridor Account was created in the state treasury for the purpose to assist financing the replacement and operations of the State Route 520 Floating Bridge and necessary landings. This account is administered by the WSDOT and is classified as a Special Revenue Fund. Pursuant to RCW 47.56.820, toll revenue is restricted to use.

Toll Facility Bond Retirement Account – Established May 2011, pursuant to RCW 47.10.882. The Toll Facility Bond Retirement Account was created in the state treasury to facilitate the payment of the principal and interest and premium on bonds issued for construction of the eligible toll facilities, including the State Route 520 Floating Bridge and Eastside plus the West Approach Project. This account is administered by the Washington State Treasurer's Office and is classified as a Debt Service Fund.

#### **Cash and Cash Equivalents**

All monies of the System are deposited with the State Treasurer's Office and are considered cash and cash equivalents. According to State law, the Treasurer's Office is responsible for maintaining the cash balances and investing excess cash of the accounts. Consequently, WSDOT does not have control over the investment of the excess cash. The financial statements consider all funds deposited with the State Treasurer's Office to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

#### **Accounts Receivables**

Accounts Receivable of the System consist primarily of toll and fee receivables from the State Route 520 toll facility, net of related allowance for doubtful accounts. As described in the Revenue Recognition & Unearned Revenue section below, customers have a Pay-by-Mail option when crossing the toll facility. When the toll bills are sent to the customer, they are recorded as an accounts receivable. For toll bill balances left unpaid, the customer service center sends a second toll bill with a \$5 toll bill reprocessing fee. For toll bills unpaid after 80 days, the amount due is no longer considered a toll bill, and becomes a Notice of Civil Penalty (NOCP). When this occurs, the toll bill receivable and toll revenue are transferred out of the State Route Number 520 Corridor Account to a separate account established by the Washington State Legislature (RCW 47.56.876), specifically for State Route 520 Corridor Notice of Civil Penalty (NOCP) Account for adjudication and collection. Pursuant to this RCW, the Legislature may transfer excess fund balance from the 520 Civil Penalties Account to the 520 Bridge Account for capital expenditures on the SR 520 Corridor. In order to transfer the funds the State Treasurer's Office must be provided administrative transfer authority, which was not provided by the Legislature in fiscal year 2013. If this authority is provided in future years, a portion of fund balance may be transferred to the 520 Corridor Account.

# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### **2. Summary of Significant Accounting Policies (Continued)**

Both the Toll Bill Receivable and the \$5 Toll Bill Reprocessing Fee Receivable are reported net of allowances for uncollectible amounts. An allowance for estimated uncollectible receivables is recognized to reduce the gross amount of both receivables to their estimated recognizable values. The allowance for doubtful accounts for this category of receivables is calculated at 10% of the adjusted accounts receivable activity. WSDOT determined the 10% allowance percentage based upon a review of similar toll operations in other states.

#### **Capital Assets**

Capital Assets of the System consist of Land, Intangible Assets, and Infrastructure Construction-in-Progress associated with the construction of the State Route 520 Program. For purposes of the System audited financial statements, WSDOT fully capitalizes infrastructure and reports the full cost of the asset. This reporting approach differs from how these infrastructure assets are reported in the State of Washington's CAFR. Within the CAFR, infrastructure assets are reported using the modified approach, which only capitalizes infrastructure assets if the asset increases capacity or efficiency and does not depreciate those assets. The state of Washington and WSDOT's capitalization threshold for intangible assets, including land use rights not acquired with the purchase of land, is \$1 million. Individual intangible assets under this threshold are expensed. Amortization of intangibles is calculated using the straight-line method over the estimated useful life of 6.5 years.

#### **Retainage Payable**

Retainage payable represents amounts billed to the System by contractors for work performed, but payment is not due in accordance with contractual provisions, until substantial completion of performance by the contractor and/or acceptance by WSDOT.

#### **Compensated Absences**

Within the state of Washington, the compensated absences liability is determined at the agency level. A proportionate share of the liability has been recorded on the System's books based upon the System's toll operations employee costs in relation to total WSDOT employee costs.

WSDOT employees, including those positions that are funded from the System, accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 240 hours at the employee's anniversary date. Annual leave that is not used for paid time off results in full compensation at termination or upon retirement. It is the accounting policy of the State of Washington to liquidate unpaid annual leave with future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts, as used by the System, recognize annual leave when it is paid.

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**2. Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (continued)**

With no limit on accumulation, sick leave is earned at 12 days per year. Sick leave is not vested. Sick leave that is not used for paid time off is only payable upon employees' death or retirement, at which time the SR 520 Corridor Account would be liable for 25 percent of the employee's accumulated sick leave. Each January, employees who have accumulated sick leave in excess of 480 hours have the option to redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for four days of sick leave. It is the accounting policy of the State of Washington to liquidate unpaid sick leave from future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts, as used by the System, recognize sick leave when it is paid.

The System's portion of the total accumulated annual and sick leave balance is shown as a reconciling item between the balance sheet and the statement of net position.

**Restricted Net Position**

Restricted Net Position of the System represent bond proceeds and reserves set aside pursuant to requirements within the Bond Covenants. The Bond Covenants require the following amounts to be set aside: Restricted for Unspent GARVEE Bond Proceeds, Restricted for Operating & Maintenance Reserve, Restricted for Repair & Replacement Reserve, and Restricted for Third Tier Debt Service. The remaining fund balance in the System account is restricted within the balance entitled "Restricted for Transportation" pursuant to the requirements of GASB Statement No. 54. This GASB statement requires that the fund balance be restricted if the fund resources are subject to externally enforceable legal restrictions, such as bond covenants, or when the revenue of the fund is to be used for a particular purpose pursuant to enabling legislation.

**Toll Revenue**

Tolling Revenue on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities is comprised of revenue associated with tolls on the System, and includes toll revenue from electronic tolls, toll revenue from pay-by-plate toll transactions and toll revenue associated with toll bills. Interest is displayed separately on the financial statement, and revenues associated with fees is included in miscellaneous revenue.

# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### **2. Summary of Significant Accounting Policies (Continued)**

##### **Revenue Recognition, Unearned Revenue and Deferred Inflows of Resources**

The System uses an automated electronic toll collection system (Good-to-Go) which uses transponders to identify vehicles passing under a toll gantry. Customers fund their Good-to-Go accounts and upon crossing the toll facility and verification of the crossing data, the system recognizes toll revenue. Users may also cross the toll facility without a Good-to-Go account and receive a toll bill. The system uses cameras to record license plate images and a bill for the toll(s) is mailed to the registered owner of the vehicle. When this Pay-by-Mail option is used, revenue is recognized as soon as the toll bill is generated by the system and sent to the customer. From the initial point of crossing the toll facility to the moment toll revenue is recorded, the toll transactions that are in-process are recorded as unbilled receivable offset to unearned revenue. At year end, the balance in the unbilled receivable account and the associated unearned revenue were removed from the accounting records.

Additionally, unearned revenue exists to properly adjust toll revenue to reflect that a portion of the toll bill receivables will be collected when the toll bill becomes a NOCP. This long-term portion of the receivables is offset by unearned revenue in accordance with governmental fund revenue recognition criteria as described in the first section of Note 2 above.

Deferred Inflows of Resources exist to reflect the long-term portion of the receivable due from the toll vendor and the portion of toll bill reprocessing fee that is estimated to take over 12 months to collect. These items are offset by long-term receivables and are considered “deferred” for governmental fund reporting purposes, but are considered earned revenue in the government wide financial statements.

Within the SR 520 Corridor Account there is no unearned revenue related to customer deposits. Customer deposits for all WSDOT toll facilities are held in a separate account outside of the System.

##### **Common Toll Revenue and Toll Expenditure Allocation Methodology**

There are currently three WSDOT Toll facilities – The Tacoma Narrows Bridge, State Route Number 167 High Occupancy Toll (HOT) Lanes, and the State Route Number 520 Floating Bridge. Various toll expenditures and toll revenues related to tolling don’t benefit a single facility, but provide benefit or are attributable to multiple facilities. These are referred to as “common” revenues and expenditures. These common revenues and expenditures are allocated to the applicable toll facilities using a consistent, reliable, and equitable allocation methodology.

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**2. Summary of Significant Accounting Policies (Continued)**

**Transfers between System Accounts**

For fiscal year 2013, there was an operating transfer out of the State Route Number 520 Corridor Account and a corresponding operating transfer in to the Toll Facility Bond Retirement Account of \$44,307,030. The purpose of these operating transfers was to provide funds for the scheduled debt service payments that the Toll Facility Bond Retirement Account makes on behalf of the State Route Number 520 Corridor Account. The transfer between accounts is eliminated and not displayed within the Statement of Activities because all accounts of the System are combined and displayed as one column within the government-wide Statement of Activities, thereby eliminating the interfund activity.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**3. Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Position**

“Total fund balances” of the System governmental funds, \$185,478,516, differs from “net position” of governmental activities, \$86,184,922, on the Governmental Funds Balance Sheet/Statement of Net Position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. The effect of each of the differences is described below:

- a. When capital assets used in governmental activities are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the System.

Capital Assets	\$ 1,128,111,981
Accumulated Amortization	<u>(618,245)</u>
Net capital Assets, June 30, 2013	<u>\$ 1,127,493,736</u>

- b. Interest payable is the amount of bond interest accrued from bond issuance or debt service payment date through June 30, 2013:

Interest payable	<u>\$ (10,488,808)</u>
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Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**3. Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Position (Continued)**

- c. Deferred Inflows of Resources is associated with: (a) the long-term receivable that is due from WSDOT's toll vendor – ETCC, and (b) the long-term receivable portion of the reprocessing fee receivable estimated to be collected after 12 months. While this revenue is considered "unavailable" for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 2 above. Therefore, these amounts are removed from the Statement of Net Position and appear as revenue in the Statement of Activities. (It should be noted that the language contained within the vendor contract with ETCC indicates that the amount due in future years becomes invalid and any amount outstanding will no longer be due to WSDOT if the contract is terminated prior to 2018):

Revenue – toll vendor	\$	849,039
Revenue – reprocessing fee		<u>870,355</u>
<b>Total</b>	<b>\$</b>	<b><u>1,719,394</u></b>

- d. Long-term liabilities applicable to the System are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities – both current and long-term – are reported in the Statement of Net Position. Balances as of June 30, 2013 were:

Compensated Absences Payable	\$	(45,674)
Deferred Sales Tax Payable		(67,160,967)
Bond Premium Payable		(131,636,274)
Bond Principal Payable		<u>(1,019,175,000)</u>
<b>Total</b>	<b>\$</b>	<b><u>(1,218,017,915)</u></b>

- e. Net Investment in Capital Assets is comprised of the following amounts:

Capital Assets Balance, June 30, 2013	\$	1,127,493,736
Less:		
Deferred Sales Tax Payable		(67,160,967)
Bonds Premium		(131,636,274)
Bond Principal Payable		<u>(1,019,175,000)</u>
		<u>(1,217,972,240)</u>
Add:		
Unspent GARVEE Bond Proceeds		<u>147,913,103</u>
		<u>147,913,103</u>
<b>Net Investment in Capital Assets</b>	<b>\$</b>	<b><u>57,434,599</u></b>

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**4. Explanation of Differences between Governmental Funds Operating Statements and the Statement of Activities**

The “net change in fund balances” for governmental funds, (\$381,422,313), in the Statement of Governmental Fund Revenues Expenditures, and Changes in Fund Balances/Statement of Activities differs from the “change in net position” for governmental activities of \$68,589,407. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of each of the differences is described below:

- a. As described in Note 3c above, the governmental funds reflect deferred inflows of resources associated with the long-term portion of the \$5 fee receivable estimated to be collected after 12 months. While this revenue is considered “unavailable” for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 2 above. Therefore, this amount was removed from the Statement of Net Position and appears as revenue in the Statement of Activities.

Revenue recognized, associated with the long-term portion of \$5 fee receivables	\$ <u>870,355</u>
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- b. Some expenses reported in the Statement of Activities column do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds:

Compensated Absences Expense	\$ (2,743)
Amortization Expense	(412,163)
Capital Outlay Expenses, Not Capitalized	(16,697)
Expense Included in Capital Outlay	<u>2,130,281</u>
<b>Net Change in Operating Expense Accruals</b>	<b>\$ <u>1,698,678</u></b>

- c. Capital outlays shown in the governmental funds consist of cost associated with the purchase of land, an intangible software asset, and infrastructure construction-in-progress. When capital assets that are used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is capitalized, and for those assets that are depreciated, costs are allocated over the assets estimated useful life. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year:

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**4. Explanation of Differences between Governmental Funds Operating Statements and the Statement of Activities (Continued)**

Capital Outlays	\$ <u>403,135,656</u>
Capitalized Interest	\$ <u>44,307,030</u>

**5. Detailed Notes on Account Balances**

**Cash and Investments Held By State Treasury**

All monies of the System are deposited with the Office of the State Treasurer (OST) as part of the State's treasury and are considered cash. OST is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The State of Washington's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013 should be referred to for disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). Please refer to said report which may be obtained from the Internet at <http://www.ofm.wa.gov/cafr/default.asp>.

All monies of the System are deposited with the Office of the State Treasurer (OST). Cash Balances for the System were as follows:

	<b>Balance</b>
	<b><u>June 30, 2013</u></b>
SR 520 Corridor Account Cash and Cash Equivalents	\$ 255,357,370
Toll Facility Bond Retirement Account Cash and Cash Equivalents	<u>2,185,523</u>
Total System Account Cash and Cash Equivalents	<u>\$ 257,542,893</u>



Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**5. Detailed Notes on Account Balances (Continued)**

**Accounts Receivable**

The following is a summary of the System's accounts receivable balances and related allowances as of June 30, 2013:

	<b>Balance</b> <b>June 30, 2013</b>
Toll Bill Accounts Receivable	\$ 1,697,427
Toll Bill Allowance for Doubtful Accounts	<u>(533,004)</u>
Net Toll Bill Accounts Receivable	<u>1,164,423</u>
Toll Bill Reprocessing Fee Receivable	1,217,391
Toll Bill Allowance for Doubtful Accounts	<u>(275,280)</u>
Net Toll Bill Reprocessing Fee Receivable	<u>942,111</u>
Toll Receivable	14,483
NSF Fee Receivable	8,434
Transponder Fee Receivable	7,091
520 Bridge Program Receivable	<u>5,891</u>
Subtotal	<u>35,899</u>
Total Accounts Receivable (Net)	<u><u>\$ 2,142,433</u></u>

**6. Capital Assets**

Capital Assets of the System consist of Land and Construction-in-Progress related to the replacement of the SR 520 Floating Bridge and Eastside plus West Approach Bridge, as well as IT intangible assets capitalized pursuant to GASB No. 51. Interest associated with payment of debt service on bonds and amortized bond premium used to fund construction of this System were capitalized and included in the total construction-in-progress value.

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

**6. Capital Assets (Continued)**

Total Capital Assets increased by \$471,113,675 in fiscal year 2013.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 23,040,992	\$ 4,859,427	\$ -	\$ 27,900,419
Infrastructure				
Construction-in-Progress	<u>630,866,090</u>	<u>466,666,411</u>	<u>-</u>	<u>1,097,532,501</u>
Total Capital Assets, Not Being Depreciated	<u>653,907,082</u>	<u>471,525,838</u>	<u>-</u>	<u>1,125,432,920</u>
Capital Assets, Being Amortized:				
Intangible Asset (IT)	2,679,061	-	-	2,679,061
Less: Amortization	<u>(206,082)</u>	<u>(412,163)</u>	<u>-</u>	<u>(618,245)</u>
Total Capital Assets Being Amortized	<u>2,472,979</u>	<u>(412,163)</u>	<u>-</u>	<u>2,060,816</u>
<b>Total Net Capital Assets</b>	<u>\$ 656,380,061</u>	<u>\$ 471,113,675</u>	<u>\$ -</u>	<u>\$ 1,127,493,736</u>

**7. Long-Term Liabilities**

a. Long-term liabilities of the System consist of the items described below. Total long-term liabilities increased by \$16,907,552 in fiscal year 2013.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Compensated Absences	\$ 42,931	\$ 2,743	\$ -	\$ 45,674	\$ -
Deferred Sales Tax Payable	35,764,347	31,396,620	-	\$ 67,160,967	-
Premiums on Bonds Payable	147,741,452	-	(16,105,178)	\$ 131,636,274	-
Bonds Payable	<u>1,019,175,000</u>	<u>-</u>	<u>-</u>	<u>\$1,019,175,000</u>	<u>-</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 1,202,723,730</u>	<u>\$ 31,399,363</u>	<u>\$ (16,105,178)</u>	<u>\$1,218,017,915</u>	<u>\$ -</u>

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**7. Long-Term Liabilities (Continued)**

b. Bonds Payable

**Series 2012 Bonds**

In October 2011, the State of Washington issued \$518,775,000 Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Toll Revenue), Series 2012C, for the purpose of providing funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside Project. The Series 2012C Bonds are general obligations of the state and, as provided by the Series 2012C Bond Resolution, the full faith, credit and taxing power of the state are pledged irrevocably to the payment of general obligation bonds. The Series 2012C Bonds are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. Bonds issued under the Series 2012C Bond Resolution have a right, pledge and preference to payment from Toll Revenue in the following order of priority: (1) First Tier Bonds, (2) Second Tier Bonds, (3) Third Tier Bonds, and (4) Fourth Tier Bonds. The Series 2012C Bonds are issued as Third Tier Bonds with respect to Toll Revenue. Interest on the Series 2012C Bonds is payable semiannually on each June 1 and December 1, beginning June 1, 2012. The principal of the Series 2012C Bonds is payable each June 1, starting in June 2017, and continuing to June 2041.

In June 2012, the State of Washington issued \$500,400,000 Federal Highway Grant Anticipation Revenue Bonds, Series 2012F (GARVEE)(SR 520 Corridor Program) to finance a portion of the costs of constructing the SR 520 Floating Bridge, the Eastside Project and to pay issuance costs for the Series 2012F Bonds. The Series 2012F Bonds are payable only from Federal-Aid Highway Funds received by the state. The Series 2012F Bonds are not general obligations of the state to which the state's full faith and credit or taxing power is pledged and no state excise taxes on motor vehicle and special fuels are pledged. Interest on the Series 2012F Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2012. The principal of the Series 2012F Bonds is payable on each September 1, starting in September 2015, and continuing to September 2024.

**TIFIA Bonds**

In October 2012, the State of Washington issued a Transportation Infrastructure and Innovation Bond, which represented a draw down loan from the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) program in the amount of \$300,000,000 to be reimbursed from toll revenue. WSDOT does not expect to begin to draw on this loan until the summer of 2014. The Bonds are "toll revenue" bonds under the Bond Act that are payable solely from toll receipts. Principal and interest payments begin December 1, 2016, payable every six months through June 1, 2051.

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**7. Long-Term Liabilities (Continued)**

**Bonds Outstanding –**

The following is a summary of the bonds payable as of June 30, 2013 (dollars in thousands):

<b>Bonds Outstanding</b>	<b>Principal Amount</b>	<b>Maturity dates</b>	<b>Annual Principal Amount Ranges</b>
Series 2012C	\$518,775	6/1/2017 to 6/1/2041	\$10,835 to \$35,100
Series 2012F	\$500,400	9/1/2015 to 9/1/2024	\$39,860 to \$61,665
TIFIA	\$300,000	12/1/2016 to 6/1/2051	\$1,560 to \$10,618

As of June 30, 2013, debt service requirements to maturity for the Series 2012C, Series 2012F and TIFIA bonds were as follows (dollars in thousands). Please note that TIFIA amounts have not been drawn as of June 30, 2013:

Year Ending June 30,	<b>Series 2012C</b>		
	Principal	Interest	Total
2014	\$ -	\$ 26,025	\$ 26,025
2015	-	26,025	26,025
2016	-	26,025	26,025
2017	10,835	26,025	36,860
2018	11,375	25,483	36,858
2019-2023	65,990	118,295	184,285
2024-2028	84,350	99,933	184,283
2029-2033	108,005	76,282	184,287
2034-2038	137,850	46,442	184,292
2039-2041	100,370	10,200	110,570
<b>Total</b>	<b>\$ 518,775</b>	<b>\$ 480,735</b>	<b>\$ 999,510</b>

Year Ending June 30,	<b>Series 2012F</b>		
	Principal	Interest	Total
2014	\$ -	\$ 24,836	\$ 24,836
2015	-	24,836	24,836
2016	39,860	23,853	63,713
2017	41,830	21,835	63,665
2018	43,895	19,716	63,611
2019-2023	254,420	62,739	317,159
2024-2025	120,395	6,018	126,413
<b>Total</b>	<b>\$ 500,400</b>	<b>\$ 183,833</b>	<b>\$ 684,233</b>

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**7. Long-Term Liabilities (Continued)**

Year Ending June 30,	<b>TIFIA</b>		Total
	Principal	Interest	
2014	\$ -	\$ -	\$ -
2015	-	-	-
2016	-	-	-
2017	3,120	9,436	12,556
2018	3,202	9,355	12,557
2019-2023	17,514	45,268	62,782
2024-2028	20,305	42,477	62,782
2029-2033	23,576	39,206	62,782
2034-2038	27,336	35,447	62,783
2039-2043	51,464	31,440	82,904
2044-2048	91,615	21,471	113,086
2049-2051	61,868	5,986	67,854
<b>Total</b>	<b>\$ 300,000</b>	<b>\$ 240,086</b>	<b>\$ 540,086</b>

Year Ending June 30,	<b>Combined</b>		Total
	Principal	Interest	
2014	\$ -	\$ 50,861	\$ 50,861
2015	-	50,861	50,861
2016	39,860	49,878	89,738
2017	55,785	57,296	113,081
2018	58,472	54,554	113,026
2019-2023	337,924	226,302	564,226
2024-2028	225,050	148,429	373,479
2029-2033	131,581	115,488	247,069
2034-2038	165,186	81,889	247,075
2039-2043	151,834	41,640	193,474
2044-2048	91,615	21,471	113,086
2049-2051	61,868	5,986	67,854
<b>Total</b>	<b>\$ 1,319,175</b>	<b>\$ 904,655</b>	<b>\$ 2,223,830</b>

# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### **7. Long-Term Liabilities (Continued)**

##### **c. Sales Tax Payable**

The 2008 Legislature passed Chapter 270, Section 7 of the Laws of 2008 (RCW 47.01.412) allowing a deferral of state and local sales and use taxes on the site preparation, project construction, and acquisition and rental of equipment for use in the SR 520 replacement project. On December 11, 2009, the Washington State Department of Revenue provided the associated certificate (3096-09-001) for deferral of State and Use Tax on the SR 520 bridge replacement and HOV project. The amount of sales tax payable as of June 30, 2013 is \$67,160,967. Per the RCW, repayment is to begin five years after the replacement bridge is complete and opened to traffic, and is to be repaid in equal payments over a ten year period.

#### **8. Commitments, Contingencies and Subsequent Events**

##### **Commitments**

Construction Commitments – As June 30, 2013, the System had in process uncompleted construction projects with remaining balances totaling approximately \$720,000,000.

Customer Service Contract – WSDOT has contracted with Electronic Transaction Consultants Corporation to manage all aspects of the State-Wide Tolling Customer Service Center through fiscal year 2018. The contract, of which a portion is allocated to the System based upon a toll facility transaction count allocation methodology, includes a tiered fee schedule for services.

Toll Lane Implementation and Maintenance Contract – WSDOT has contracted with Telvent USA for implementation and on-going maintenance of the SR 520 Floating Bridge toll lane hardware and software.

##### **Contingencies**

The System Bond Covenants require that WSDOT keep the SR 520 Corridor System and its use and operation thereof insured at all times in such amounts as are customary for similar facilities, including business interruption insurance. WSDOT has purchased insurance from a commercial insurance carrier for this purpose.

In addition, Washington State operates a risk management liability program pursuant to RCW 4.92.130. The State's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the State's management believes it is more economical to manage its risk internally (as a Self-Insurance Liability Program) and set aside assets for claims settlements in the Risk Management Fund, an internal service fund. WSDOT participates in Risk Management's Self-Insurance Liability Program.

# Washington State System of Eligible Toll Facilities

## Notes to the Financial Statements

### June 30, 2013

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#### 8. Commitments, Contingencies and Subsequent Events (Continued)

##### Contingencies (Continued)

SR 520 Geotechnical Design Issue: The dispute involves a material found on the project site referred to as Qpgl soils or Seattle Clay. As part of the contract, the Design-Builder is required to build a number of retaining walls on and around this material. The parties' efforts to resolve the dispute through the Project's Dispute Review Board has not resulted in resolution. The next step in the dispute is likely a filing of a claim by the Contractor. If filed, WSDOT will then assess the claim and either negotiate a settlement, make a determination of equitable adjustment, or reject the claim. The design-build agreement provides for an opportunity for mutually agreed non-binding arbitration, or ultimately the issue may be elevated to Superior Court. The dispute is impacting project schedule and the Contractor has indicated they expect a 2014 completion versus the December 2013 contractual substantial completion.

Kenmore Potential Litigation: Two notices of intent to sue were sent regarding potential lawsuits. One was sent by a group known as Waste Action Project to Kiewit/General/Manson, threatening to file a citizens' suit under the federal Clean Water Act. That complaint was filed against the contractor on September 10, 2013 and names only K/G/M as the defendant. Another notice of intent to sue was sent to the Federal Highway Administration and the National Marine Fisheries Service on May 30, 2013, threatening a suit under the Endangered Species Act. No complaint has yet been filed in that matter. WSDOT is not a party to either of these matters but is monitoring them to determine whether they will impact the project.

Pontoon Repairs: In February 2013, WSDOT acknowledged a design error that led to cracks in the initial cycle of concrete pontoons, and which also required modifications to Cycle 2 to meet the new bridge's 75-year design life. Negotiations are complete on three change orders related to the design issues:

- For the first change order, WSDOT paid \$9.9 million to pontoon construction contractor Kiewit-General for repairs related to spalling that occurred following post tensioning of the Cycle 1 pontoons while they were in the casting basin in Aberdeen and related impacts. The work was completed and the pontoons were floated out in 2012.
- For the second change order, WSDOT paid \$22.4 million to pontoon construction contractor Kiewit-General to add transverse post-tensioning to four Cycle 2 pontoons while they were in the casting basin in Aberdeen and related schedule impacts. The work was completed in spring 2013 prior to float-out in April.
- For the third change order, WSDOT will pay \$48.8 million to floating bridge contractor Kiewit/General/Manson, A Joint Venture, to complete repairs on the Cycle 1 pontoons that were delivered from the pontoon construction contract. These repairs for Cycle 1 have been underway since June to help keep overall bridge construction moving.

Washington State System of Eligible Toll Facilities  
Notes to the Financial Statements  
June 30, 2013

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**8. Commitments, Contingencies and Subsequent Events (Continued)**

**Contingencies (Continued)**

Change orders will be paid from the SR 520 corridor program risk reserve developed to address unforeseen project issues, and is part of the current funded \$2.7 billion SR 520 corridor program budget. With these change orders paid, the current risk reserve is now \$100 million.

Additional change orders to be finalized later this calendar year:

- Adding transverse post-tensioning to the pontoons built in Cycles 3-6 and related schedule impacts.
- Schedule effects to the Pontoon Construction Project and the Floating Bridge and Landings Project with their respective contractors.

In addition to the information above, various claims arising in the ordinary course of operations and construction of the System do occur. The ultimate effect of such litigation cannot be ascertained at this time.

**Subsequent Events**

Bond sale in fiscal year 2014: In September 2013 the state of Washington issued Series 2014C bonds. This second series of GARVEE bonds resulted in \$323 million in net proceeds delivered to the state. The last maturity on these bonds is 2024.

This information is an integral part of the accompanying financial statements.